

National Electric Power Regulatory Authority

NOTIFICATION



Islamabad, the 24th day of February, 2023

S.R.O. 235 (I)/2023.- In pursuance of Sub-Section 7 of Section 31 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 (XL of 1997), NEPRA hereby notifies the Decision of the Authority in the matter of Motion for Leave for Review filed by Gujranwala Electric Power Company Ltd. (GEPCO) against Decision of the Authority for its Supply of Power Tariff under MYT Regime for the FY 2020-21 to FY 2024-25 in Case No. NEPRA/TRF-563/GEPCO-2021.

2. While effecting the Determination, the concerned entities including Central Power Purchasing Agency Guarantee Limited (CPPAGL) shall keep in view and strictly comply with the orders of the courts notwithstanding this Decision.

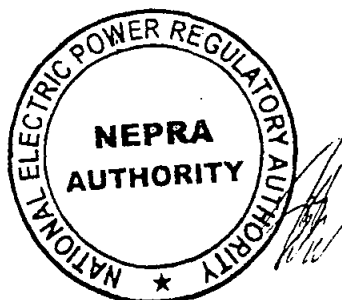
(Engr. Mazhar Iqbal Ranjha)
Registrar



DECISION OF THE AUTHORITY IN THE MATTER OF MOTION FOR LEAVE FOR REVIEW FILED BY GUJRANWALA ELECTRIC POWER COMPANY (GEPCO) AGAINST DETERMINATION OF THE AUTHORITY FOR ITS SUPPLY OF POWER TARIFF UNDER MYT REGIME FOR THE FY 2020-21 TO FY 2024-25

1. The Gujranwala Electric Power Company Limited (GEPCO), hereinafter called "the Petitioner" being a distribution licensee of NEPRA filed Motion for Leave for Review, against determination of the Authority dated June 02, 2022 for its Supply of Power Tariff under the Multi Year Tariff Regime for the FY 2020-21 to FY 2024-25.
2. The Petitioner has raised the following points in its review motion;
 - i. Reduction in Return on Rate Base (RORB)
 - ii. Omission of Rs.3,879 million in prior year adjustment
3. **Proceedings**
 - 3.1. The Motion for Leave for Review was admitted by the Authority on July 14, 2022. In order to provide a fair opportunity to the Petitioner to present its case, the Authority decided to conduct a hearing in the matter which was scheduled on August 23, 2022 at NEPRA Tower Islamabad; notice of hearing/ admission was sent to the Petitioner.
 - 3.2. The hearing was held on August 23, 2022, wherein the Petitioner was represented by its Chief Executive Officer along-with its Technical and Financial Team.
4. **Reduction in Return on Rate Base (RORB)**
 - 4.1. The Petitioner on issues of RORB submitted that significant reduction has been made in RORB and accordingly has requested to consider the followings submissions in this regard:
 - a) Replacement Cost of Meters neither Allowed as R&M nor as Investment
 - 4.2. Regarding replacement cost of Meters, the Petitioner while referring to Para 32.2 of its Supply of Power determination dated 02.06.2022, submitted that the Authority for the purpose of assessment of R&M costs, has used the base figure of Rs.647 million, after excluding the cost of meters. The cost of meters excluded from the total O&M costs is Rs.641 million and the Authority under Para 32.6 of the determination, directed to capitalize the cost of meters instead of expensing out the same. The Petitioner requested to either allow the excluded amount of meters as part of R& M or include the same as part of Investments. The Petitioner submitted the following details of R&M costs allowed by the Authority;

Description	Rs. Mln				
	2019-20 Audited	2019-20 Base Figure	2020-21 Allowed	2021-22 Allowed	2022-23 Allowed
R & M without Meters Cost	647	647	708	798	866
Meters Replacement Cost	641	-	-	-	-
Total R & M	1,282	647	708	798	866



2nd Motion



4.3. The Petitioner in order to justify its request apprised that cost of meters for new connections is being capitalized and the cost of replaced meters is being charged to R&M, however, the Authority has reduced the base figure of R&M expenses by exclusion of the cost of replaced meters from R&M. The Petitioner accordingly requested either to allow the excluded amount of meters as R&M or include the same as part of Investments. If the Authority considers the same as part of Investments, than corresponding increase in RORB and Depreciation may also be allowed, so that there may not be any shortfall in total Revenue Requirement of the Petitioner.

4.4. The Authority in the tariff determination of GEPCO dated 02.06.2022, decided as under;

"The Authority noted that the Petitioner instead of capitalizing the cost of meters is expensing out the same, therefore, while assessing the R&M costs of the Petitioner for the FY 2020-21, the Authority has excluded the amount related to Meters from the actual cost of R&M of the Petitioner for the FY 2019-20. The Petitioner is directed to capitalize the cost of meters instead of expensing out the same."

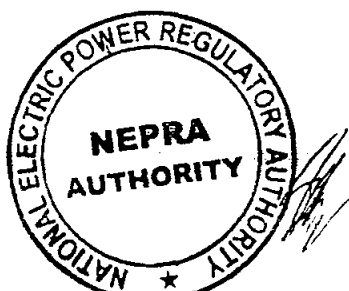
4.5. Similarly, for the investments allowed for the MYT control period, the Authority decided as under;

"To ensure that amount allowed under each head of investment shall not be used under any other head. The re-appropriation of Authority's allowed investment under different heads by DISCO shall not be acknowledged by the Authority and shall be adjusted accordingly. In case of any deviation under each head of the investment for more than 5% in the instant approved investment plans of DISCOs due to any regulatory decisions/interventions/approved plans, DISCOs shall be required to submit additional investment requirements for prior approval of the Authority."

4.6. Thus, the Petitioner has already been directed to ensure proper classification of cost of meters as part of CAPEX in its audited accounts for the FY 2021-22 and restating its Audited accounts for the FY 2020-21. Once the Audited account of the Petitioner for the FY 2021-22 are available with cost of meters reflected as part of CAPEX, the Authority may consider to allow RoRB on the said amount as part of PYA, in the upcoming adjustments/ indexation of the Petitioner for the FY 2023-24, to be filed in February 2023.

b) Application of Latest Available KIBOR Rates for Calculation Of RORB

4.7. The Petitioner regarding application of latest available KIBOR rate in calculations of RORB while referring to Para 38.11 of the Supply of Power Determination, submitted that the Authority has used 3 Months KIBOR dated 3rd July, 2020 i.e. 7.03% and allowed biannual adjustment of KIBOR to cover the risk of floating KIBOR. The Petitioner submitted that KIBOR rate of 4th January, 2022 is 10.52% and at present as on 08-06-2022, KIBOR is 15.02%. The Petitioner accordingly requested the Authority



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to use the latest rates available instead of the old ones so that there may not be any shortfall in total Revenue Requirement of the Petitioner keeping in view the liquidity position of the sector.

- 4.8. The Authority on the issue of KIBOR for working out WACC, vide decision dated 02.06.2022, has decided as under;

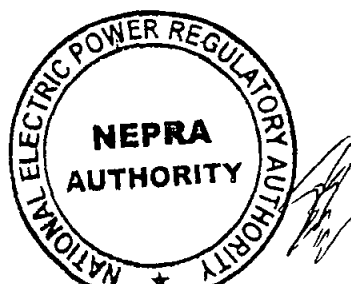
"As regard the cost of debt, it is the interest rate on which a company would get borrowing from the debt market / commercial banks i.e. a rate at which banks lend to their customers. In order to have a fair evaluation of the cost of debt, the Authority has taken cost of debt as 3 month's KIBOR + 2.00% spread. Consequently, the cost of debt has been worked out as 9.03% i.e. 3 Months KIBOR of 7.03% as of 3rd July 2020 plus a spread of 2.00% (200 basis points).

The Authority also understands that interest payment is an obligatory cash flow liability unlike discretionary dividend payment and considering the fact that any default may hamper the financial position of the Petitioner, hence the Authority has decided to cover the risk of floating KIBOR. Accordingly, fluctuation in the reference KIBOR would be adjusted biannually. In addition, the Authority has also decided to allow sharing of benefit by introducing a claw back mechanism for any savings resulting from cheaper financing by the Petitioner to the extent of 2.00% spread. If the Petitioner manages to negotiate a loan below 2.00% spread, the savings would be shared equally between the consumers and the Petitioner through PYA mechanism annually. In case of more than one loan, the saving with respect to the spread would be worked out by a weighted average cost of debt. The sharing would be only to the extent of savings only i.e. if the spread is greater than 2.00%, the additional cost would be borne by the Petitioner."

- 4.9. The Authority further decided in the MYT determination of the Petitioner that;

"The Authority also understands that by the time the instant decision is notified, the FY 2021-22 would have elapsed and the FY 2022-23 would have started. Meaning thereby that tariff indexation/adjustment for the FY 2021-22, which ideally should have been allowed in July 2021 would have become overdue, and the indexation/adjustment for the FY 2022-23 would also have become due. In view thereof, and in order to ensure timely recovery of the allowed cost to the Petitioner, the Authority has decided to allow the indexation/adjustment for the FY 2021-22 and the FY 2022-23, upfront in the instant decision as per the adjustment /indexation mechanism provided in this determination. However, the impact of under/ over recovery due to indexation/adjustment for the FY 2021-22 would be allowed / adjusted subsequently as part of future PYA."

- 4.10. As per the above decision, the Authority has already decided to allow fluctuation in the reference KIBOR, to be adjusted biannually. Therefore, for the FY 2020-21, FY 2021-22 and FY 2022-23, the adjustment in respect of KIBOR if any, i.e. actual vis a vis reference, would be allowed as prescribed in the MYT determination, in the upcoming

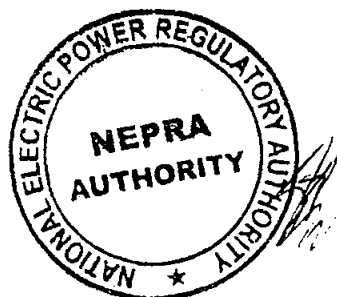




adjustments / indexation of the Petitioner for the FY 2023-24, to be filed in February 2023. The concern of the Petitioner, thus stands addressed.

c) Taking 30% Capital Work in Progress (CWIP) for Calculation of RORB

- 4.11. The Petitioner has also submitted that the Authority has taken only 30% of CWIP for Calculation of RORB by quoting International Practices, however, it is submitted that this mechanism has reduced the Petitioner's RORB and is also not in line with Consumer End Tariff (Methodology & Process) Guidelines, 2015. The Authority is requested to reconsider the same.
- 4.12. On the point of not allowing WACC on 100% balance of CWIP, the Authority has deliberated in detail the rationale / justification for allowing RoE up-to 30% of the CWIP balance in the Petitioner's decision dated 02.06.2022.
- 4.13. The main reason behind allowing RoE on 30% of CWIP balance was to avoid duplication of cost to the consumers. The Authority noted that CWIP includes Interest during Construction (IDC), which is capitalized and becomes part of total fixed assets at the time of transfer of CWIP to fixed assets. Therefore, WACC if allowed on 100% CWIP, would mean IDC, is being paid by the consumers and upon transfer of CWIP to fixed asset (including IDC), allowing Return and Depreciation on the total amount of fixed asset would mean duplication of cost.
- 4.14. DISCOs in their submissions and during the hearings have pleaded that amount of IDC is relatively very small as compared to what the Authority has assumed by deducting 70% amount of CWIP, as the actual gearing ratio of DISCOs is much different from the allowed capital structure. DISCOs also submitted that the amount of actual IDC would be disclosed separately in the financial statements either under the note to the fixed asset or as a separate item. Therefore, the Authority may deduct the amount of IDC from RAB, while allowing RoRB and depreciation on RAB.
- 4.15. As explained earlier, the main objective of allowing ROE on 30% of CWIP, was to avoid duplication of costs. Since DISCOs have submitted to separately disclose the amount of IDC in their accounts, therefore, the Authority, keeping in view the submissions of DISCOs, has decided to consider the request of the Petitioner to allow WACC on the total amount of CWIP, after excluding therefrom the amount of IDC, disclosed in the Financial Statements. Thus, would address the issue of duplication of cost. Here it must be noted that by deducting the amount of IDC, as disclosed in the financial statements, shall in no way be construed as acceptance of actual debt:equity structure of the Petitioner, instead of the one allowed by the Authority.
- 4.16. It is also important to highlight that allowing RoE on 30% amount of CWIP instead of its total amount, provides an inbuilt incentive to DISCOs to go for early/ timely completion of their assets. Therefore, decision of the Authority to allow WACC on





total amount of CWIP shall not result in delay in transfer of CWIP to fixed assets. The DISCOs shall ensure for completion of assets in a timely manner.

- 4.17. The above decision of the Authority to allow WACC on 100% of CWIP would result in revision in the allowed RoRB of the Petitioner for the FY 2020-21. The same would now be used as reference for adjustment/ indexation of the RoRB component for the future years including FY 2021-22 and FY 2022-23, as per the indexation/ adjustment mechanism prescribed in the MYT determination. The year wise total impact of the revised RoRB is as under;

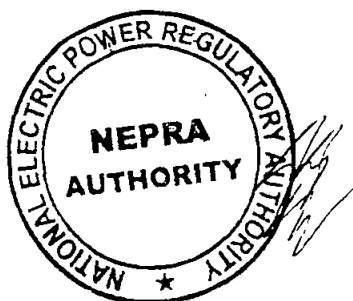
Description	Rs. Mln			
	FY-21	FY-22	FY-23	Total
Already Allowed RORB	2,659	2,941	3,333	8,934
Revised RORB	3,187	3,553	4,108	10,848
DOP	3,123	3,482	4,026	10,631
SOP	64	71	82	217
Net Increase	527	612	775	1,914

5. OMISSION OF RS.3,879 MILLION AS PART OF PRIOR YEAR ADJUSTMENT

- 5.1 The Petitioner submitted that the Authority has used Rs.19,427 million as allowed DM for the FY 2019-20 and the same figure has been incorporated for the FY 2020-21 as allowed DM, instead of Rs. 23,306 Million (Distribution 19,428 + Supply 3,878 Million). The Petitioner on the above issue submitted that the Authority has not correctly calculated the total positive PYA of GEPCO for the FY 2020-21, as the amount of Rs.3,879 million has not been included in the total PYA as detailed below:

Description	Rs. Mln		
	NEPRA Determined	GEPCO Calculated	Under Recovery
Allowed	19,427	19,427	-
Recovered	12,805	12,805	-
Under/(Over) Recovery	6,622	6,622	-
Allowed	19,427	23,306	3,879
Recovered	16,441	16,441	-
Under/(Over) Recovery	2,986	6,865	3,879

- 5.2 The Petitioner accordingly requested to allow the same being legitimate cost. However, during the hearing, the Petitioner submitted that since the Authority has already adjusted this amount in the Uniform tariff decision of the Authority dated 22.07.2022, therefore, no further adjustment is required in this regard.



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- 5.3 Since, the matter has already been addressed in the decision of the Authority dated 22.07.2022, in the matter of Motion filed by the Federal Government with respect to Recommendation of the Consumer-end Tariff. Therefore, no further action is required on the part of Authority on this account.
6. In view of the above discussion the Petitioner is hereby allowed additional amount of Rs.1,914 million as tabulated below with year wise revised amount of RORB. The same would be made part of PYA in the petitioner's next indexation/ adjustment request for the FY 2023-24, to be filed in February 2023.

Description	Rs. Mln			
	FY-21	FY-22	FY-23	Total
Already Allowed RORB	2,659	2,941	3,333	8,934
Revised RORB	3,187	3,553	4,108	10,848
DOP	3,123	3,482	4,026	10,631
SOP	64	71	82	217
Net Increase	527	612	775	1,914

7. The decision of the Authority is intimated to the Federal Government for notification in the official gazette under Section 31(7) of the NEPRA Act.

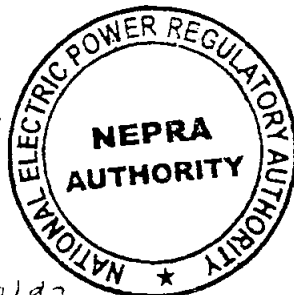
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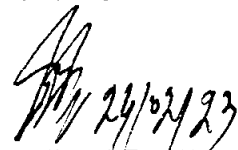
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In pursuance of Sub-Section 7 of Section 31 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 (XL of 1997), enclosed please find herewith 'Decision of the Authority in the matter of Motion for Leave for Review filed by Gujranwala Electric Power Company Ltd. (GEPCO) against Decision of the Authority for its Supply of Power Tariff under MYT Regime for the FY 2020-21 to FY 2024-25' for immediate publication in the official gazette of Pakistan. Please also furnish thirty five (35) copies of the Notification to this Office after its publication.

Encl: Notification [07 pages & CD]


(Engr. Mazhar Iqbal Ranjha)

CC:

1. Chief Executive Officer, Central Power Purchasing Agency (Guarantee) Limited, 73 East, AKM Fazl-e-Haq Road, Block H, G-7/2, Blue Area, Islamabad
2. **Syed Mateen Ahmed**, Deputy Secretary (T&S), Ministry of Energy – Power Division, 'A' Block, Pak Secretariat, Islamabad [w.r.t. NEPRA's Decision issued vide No. 442-444 dated January 12, 2023]